

INSPECTOR GENERAL AUDIT OPINION



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUG - 8 2000

INDEPENDENT AUDITORS REPORT

Memorandum

To: Director, National Park Service

Subject: Independent Auditors Report on National Park Service Financial Statements for Fiscal Year 1999 (No. 00-I-621)

SUMMARY

In our audit of the National Park Service's (NPS) financial statements for fiscal year 1999, we found the following:

- The principal financial statements were fairly presented in all material respects. NPS's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 1999; the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Consolidated Statement of Financing for the fiscal year ended September 30, 1999; and the Combined Statement of Budgetary Resources for the fiscal year ended September 30, 1999.

- Our tests identified no internal control weaknesses that we consider to be reportable conditions.

- Our tests of compliance with laws and regulations identified one instance of noncompliance with the United States Code (16 U.S.C. § 1a-8) that requires NPS to develop and implement a comprehensive, standardized maintenance management system and one instance of noncompliance with Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," that relates to NPS not calculating the unit costs of its outputs.

Our conclusions are detailed in the sections that follow.

OPINION ON FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, we audited NPS's principal financial statements for the fiscal year ended September 30, 1999 as contained in NPS's accompanying Accountability Report for fiscal year 1999. These financial statements are the responsibility of NPS, and our responsibility is to express an opinion, based on our audit, on these financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget (OMB) Bulletin 98-08, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

In our opinion, the principal financial statements (pages 77 to 95) present fairly, in all material respects, the consolidated financial position of NPS as of September 30, 1999, its combined budgetary resources and outlays for the fiscal year ended September 30, 1999, and its consolidated net cost, changes in net position, and financing for the fiscal year ended September 30, 1999 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined principal financial statements taken as a whole. The accompanying consolidating and combining information is presented for purposes of additional analyses of the consolidated and combined principal financial statements. The consolidating and combining financial statements for fiscal year 1999 (pages 110 to 113) were subjected to the auditing procedures applied in the audit of the consolidated and combined principal financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated and combined principal financial statements taken as a whole.

The required supplementary stewardship information (pages 97 to 108) is not a required part of the principal financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, including discussions with management, on the methods of measurement and presentation of the supplementary information. However, we did not audit the information and therefore do not express an opinion on it.

REPORT ON INTERNAL CONTROLS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 98-08.

Management of NPS is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and required supplementary stewardship information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions are executed in accordance with (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the principal financial statements or required supplementary stewardship information and (2) any other laws, regulations, and Governmentwide policies identified by OMB.
- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we considered NPS's internal controls over financial reporting by obtaining an understanding of NPS's internal controls, determined whether these controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and not to provide assurance on the internal controls over financial reporting. Accordingly, we do not provide an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Bulletin 98-08, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect NPS's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we did not note any matters involving the internal controls and their operation that we considered to be material weaknesses as defined previously.

STEWARDSHIP AND PERFORMANCE MEASURES

We considered NPS's internal controls over the required supplementary stewardship information (pages 97 to 108) by obtaining an understanding of NPS's internal controls relating to the preparation of the required supplementary stewardship information to determine whether these internal controls had been placed in operation, assessed the control risk, and

performed tests of these controls as required by Bulletin 98-08. However, providing assurance on these internal controls was not an objective of our audit, and accordingly, we do not provide assurance on such controls.

With respect to the internal controls related to performance measures reported in NPS's Overview (pages 11 to 13), we obtained an understanding of the design of significant internal controls related to the existence and completeness assertions, as required by Bulletin 98-08. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 98-08.

Management of NPS is responsible for complying with laws and regulations applicable to NPS. As part of obtaining reasonable assurance as to whether NPS's principal financial statements are free of material misstatement, we performed tests of NPS's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the principal financial statements amounts and certain other laws and regulations specified in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph, exclusive of the Federal Financial Management Improvement Act, disclosed two instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

A. Lack of a Maintenance Management System

As discussed in the Prior Audit Coverage section of this report, the Office of Inspector General's March 1998 report "Followup of Maintenance Activities, National Park Service" (No. 98-I-344) said that NPS had not successfully implemented and maintained an NPS-wide maintenance management system which provides complete data and/or information for prioritizing maintenance projects, monitoring and measuring maintenance activities, or fully supporting budgetary requests for maintenance backlog funding.

In 1985, 16 U.S.C. § 1a-8 required NPS to develop and implement a comprehensive, standardized maintenance management system. Through 1992, the Secretary of the Interior's Annual Statement and Report to the President and the Congress identified the lack of a formal systematic methodology for managing maintenance operations as a material weakness. In 1993, NPS informed the Department that implementation of its standardized maintenance management system had eliminated this weakness. In 1998, we found, however, that the

system was no longer used on an NPS-wide basis. We recommended that NPS maintain a maintenance tracking system in accordance with 16 U.S.C. § 1a-8 and report the lack of a standardized maintenance management system as a material management control weakness in accordance with the requirements of the Federal Managers' Financial Integrity Act. During our current audit of the principal financial statements for fiscal year 1999, we noted that NPS did not have an NPS-wide standardized maintenance management system and did not report the lack of a standardized maintenance management system as a material management control weakness in accordance with the recommendations contained in our March 1998 report.

Recommendation

We recommend that the Director, NPS, implement and maintain a standardized maintenance management system in compliance with 16 U.S.C. § 1a-8.

NPS Response: In the June 20, 2000 response (Appendix 1) to the draft report from NPS's Chief Financial Officer, NPS did not agree with the original recommendation to report the lack of a standardized maintenance management system as a material internal control weakness, stating that the Department of the Interior has reported the lack of a system as a "material internal control weakness for the Department . . . as a whole." NPS also said that it is "working on a pilot program to standardize a maintenance management system" and that the Congress has authorized NPS "to pursue a pilot demonstration program for the recently selected Servicewide Facility Management Software System."

Office of Inspector General Reply: We acknowledge that the Department has reported inadequate maintenance management as a Departmentwide material weakness, which resolves the issue of reporting in accordance with the Federal Managers' Financial Integrity Act. Based on the response, we have revised the recommendation to clarify this matter and believe that NPS's response meets the intent of the revised recommendation.

B. Noncompliance With Managerial Cost Accounting Standards

Statement of Federal Financial Accounting Standards No. 4 requires management of each reporting entity¹ to define and establish their responsibility segments² and to perform managerial cost accounting to measure and report the costs of each segment's outputs.³

¹Statement of Federal Financial Accounting Concepts No. 2, "Entity and Display," defines a reporting entity as an entity that issues "general purpose financial statements to communicate financial and related information about the entity."

²Standard No. 4 defines a responsibility segment as "a component of a reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services."

³Standard No. 4 defines an output as "the services or products that the segment produces or delivers, the missions or tasks that the segment performs, or the customers or markets that the responsibility segment serves." In addition, outputs can be "[a]ny product or service generated from the consumption of resources. It can include information or paper work generated by the completion of the tasks of an activity."

Standard No. 4 also requires, for each segment, that managerial cost accounting "define and accumulate outputs, and if feasible, quantify each type of output in units; accumulate costs and quantitative units of resources consumed in producing the outputs; and assign costs to outputs, and calculate the cost per unit of each type of output." For fiscal year 1999, NPS did define, accumulate, and measure in units some of the outputs reported in its overview; however, NPS did not calculate the unit costs of those outputs.

Recommendation

We recommend that the Director, NPS, develop an action plan with a timetable to assign costs to outputs and calculate the unit costs of outputs.

NPS Response: NPS said that it "concurs in principle" with this recommendation and that it would "continue to work to include data that reflects the costs of outputs [reported in the Overview section of its accountability report] and will calculate the unit costs of those outputs." NPS also said that "until a realignment of NPS' budget and program structure can take place many outputs cannot be assigned to the unit level."

Compliance With Federal Financial Management Improvement Act Requirements

Under the Federal Financial Management Improvement Act, we are required to report whether NPS's financial management system is in substantial compliance with requirements for Federal financial management systems, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of Bulletin 98-08. The results of our tests disclosed no instances in which NPS's financial management system was not in substantial compliance with these three requirements.

CONSISTENCY OF OTHER INFORMATION

We reviewed the financial information presented in NPS's management's discussion and analysis information (pages 1 to 75) and in the required supplementary information (pages 97 to 116) to determine whether the information was consistent with the principal financial statements. Based on our review, we determined that the management's discussion and analysis information and the required supplementary information was consistent with the principal financial statements.

PRIOR AUDIT COVERAGE

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to NPS's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to NPS's financial statements or internal controls. We found that there were no General Accounting Office

reports which contained significant unresolved or unimplemented recommendations related to NPS's financial statements or internal controls. However, the Office of Inspector General has issued two audit reports that had significant unresolved or unimplemented recommendations which we considered to be reportable weaknesses as follows:

- The report "Followup of Maintenance Activities, National Park Service" (No. 98-I-344), issued in March 1998, said that NPS had not taken sufficient actions to implement two prior audit report recommendations relating to successfully operating a viable NPS-wide maintenance management system which provided complete data and information for prioritizing, monitoring, and measuring maintenance projects and activities or for fully supporting budget requests for funding a maintenance backlog. In addition, the report said that NPS had not actively pursued opportunities to modify concession maintenance agreements, which defined each party's maintenance responsibility, and to have concessioners perform or pay for all maintenance related to the facilities they used; allowed Lake Mead National Recreation Area maintenance personnel to perform road maintenance for cabin lessees without reimbursement of costs from the lessees; and had not maintained a standardized maintenance management system which contained all seven elements legislatively mandated by 16 U.S.C. § 1a-8. The report contained four recommendations relating to modifying concessioner agreements to reflect maintenance responsibilities, maintaining a maintenance tracking system in accordance with 16 U.S.C. § 1a-8, discontinuing maintenance that provides special benefits to cabin lessees unless costs are reimbursed, and reporting the lack of a standardized maintenance management system as a material management control weakness in accordance with the requirements of the Federal Managers' Financial Integrity Act. Although NPS was requested to provide written comments to the draft report, no response was provided. As of September 30, 1999, NPS reported that it had implemented the recommendation to discontinue performing unreimbursed maintenance on leased cabins, but the remaining three recommendations were unresolved.

- The report "Auditors Report on National Park Service Financial Statements for Fiscal Years 1998 and 1997" (No. 99-I-916) was issued in September 1999. In the report, NPS received an unqualified opinion on its financial statements, but the report also identified two internal control weaknesses relating to the construction-in-progress account and deferred maintenance reporting and one issue of noncompliance for not reporting the lack of a standardized maintenance management system as a material management control weakness in NPS's annual assurance statement on management controls for fiscal year 1998, as required by the Federal Managers' Financial Integrity Act. The report contained five recommendations relating to (1) amending NPS's fixed assets manual to require the cost of projects for nongeneral property, plant, and equipment to be recorded as an expense in the period incurred; (2) establishing and implementing policies and procedures for management oversight to ensure that field offices identify, in the accounting system, the project capitalization category to allow a capitalization determination upon project approval; (3) accounting for construction projects based on the project capitalization category to ensure that the construction-in-progress subsidiary ledger includes only those construction projects that will be capitalized when placed in service and that nongeneral property, plant, and equipment costs are charged to expenses on a current basis; (4) validating the adjustments made to the control and subsidiary construction-in-progress account to estimate the fiscal year 1998 ending balance for projects

that would be capitalized when placed in service; and (5) establishing policies and procedures for conducting periodic condition assessment surveys and for estimating the deferred maintenance needs of NPS, including the requirement that the data and the methodologies used to compute the estimates should be documented and reviewed and approved by supervisors. As of September 30, 1999, NPS had implemented the recommendations related to accounting for construction projects and validating the adjustments made to the construction-in-progress accounts but had not implemented the remaining three recommendations. Regarding compliance, we determined that NPS had not reported the lack of a standardized maintenance management system in its annual assurance statement on management controls for fiscal year 1999.

OBJECTIVE, SCOPE, AND METHODOLOGY

Management of NPS is responsible for the following:

- Preparing the principal financial statements and the required supplementary information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for preparing the other information contained in the 1999 Accountability Report.

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on NPS's principal financial statements.

- Obtaining an understanding of the internal controls based upon the internal control objectives contained in Bulletin 98-08, which requires that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary information in accordance with Federal accounting standards; that assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and that transactions and other data which support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

- Testing NPS's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.

- Assessed the accounting principles used and the significant estimates made by management.

- Evaluated the overall presentation of the principal financial statements.

- Obtained an understanding of the internal control structure related to safeguarding assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; financial reporting; and certain performance measures reported in the Overview.

- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.

- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls relevant to the operating objectives as broadly defined in the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

Based on NPS's June 20, 2000, response (Appendix 1), we consider Recommendations A.1 and B.1 resolved but not implemented. Accordingly, the recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Since the recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 2).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of NPS and OMB and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Roger La Rouche
Acting Assistant Inspector General
for Audits



United States Department of the Interior

NATIONAL PARK SERVICE
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IN REPLY REFER TO:

F4217(2625)

JUN 20 2000

Memorandum

To: Acting Assistant Inspector General for Audits
Office of the Inspector General

From: Chief Financial Officer
National Park Service *[Signature]* 4/30/00

Subject: Auditors Preliminary Draft Report on National
Park Service Financial Statement for Fiscal
Year 1999 (Assignment No. E-IN-NPS-008-99-R)

This is in response to the recommendations contained in the subject report.

Maintenance Management System, Recommendation We recommend the Director, National Park Service, report the lack of a standardized maintenance management system as a material internal control weakness to the Congress.

The Service disagrees with the recommendation since the Department of the Interior has accepted the responsibility for the lack of a standardized maintenance management system and has reported the material internal control weakness for the Department of the Interior as a whole.

The Service, however, is working on a pilot program to standardize a maintenance management system. In the fiscal year 2000 Conference Report on NPS appropriations, Congress authorized the Service to pursue a pilot demonstration program for the recently selected Servicewide Facility Management Software System.

Base funds have been utilized to implement the pilot program in 30 parks, representing all seven regions. The pilot parks represent complex, medium, and small organizations, historical, natural and urban areas, remote locations, multiple site units, and different levels of resource availability to input data at the park level. The parks will test the functionality of the system, test for connectivity issues, and tailor the system in accordance with the Service's guidelines for conducting facility management.

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To date, the asset management application has been developed and is being tested before it is utilized in the pilot parks to collect information on their assets. The asset management application will include a standardized and automated system for calculating the overall condition of an asset (industry standard) and a standardized cost estimating tool to assist in planning and prioritizing backlog maintenance projects.

Noncompliance with Managerial Cost Accounting Standards, Recommendation We recommend that the Director, National Park Service, develop an action plan with a timetable to assign costs to outputs and calculate the unit costs of outputs.

The Service concurs in principle that costs have not been assigned to outputs and the unit costs of outputs have not been calculated for each reported segment. The Service's budget and accounting system structure provides for presenting and tracking financial resources by Servicewide program and by park organization providing maximum flexibility for program managers at all organizational levels. At this time, however, the Servicewide budget and program structure does not precisely reflect the Government Performance and Results Act goals. We have proposed a realignment to remedy this situation but have not received approval to make the necessary changes.

Four annual performance goals were included in the Overview section of the fiscal year 1999 accountability report. The Office of Strategic Planning collected this data from parks and offices servicewide and reflected targeted goals and their accomplishments. The Service will continue to work to include data that reflects the costs of outputs and will calculate the unit costs of those outputs. However, until a realignment of NPS' budget and program structure can take place many outputs cannot be assigned to the unit level.

Unresolved or Unimplemented Prior Audit Recommendations Three recommendations addressed in the "Auditors Report on National Park Service Financial Statements for Fiscal Years 1997 and 1998" (No. 99-I-916), were not completed by September 30, 1999. The recommendations required NPS to: 1) amend its fixed assets manual to require the cost of projects for non-general property, plant, and equipment to be recorded as an expense in the period incurred; 2) establish and implement policies and procedures for management oversight to ensure that field offices identify, in the accounting system, the project capitalization category to allow a capitalization determination upon project approval; and 3) establish policies and procedures for conducting periodic condition assessment surveys and for estimating the deferred

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maintenance needs of NPS, including the requirement that the data and the methodologies used to compute the estimates should be documented and reviewed and approved by supervisors.

During fiscal year 1999 a project team, established by me, verified adjustments made to the control and subsidiary construction-in-progress account for the fiscal year 1998 ending balance, and also reviewed all construction-in-progress projects to ensure that the proper accounting of all related fixed assets and expenses was complete. NPS will issue a revised fixed assets manual by September 30, 2000, which will: 1) require the cost of projects for non-general property, plant, and equipment to be recorded as an expense in the period incurred; and 2) establish procedures for the management oversight by the Washington Budget Office to ensure newly established projects are recorded in the accounting system and reflect the appropriate capitalization determination upon project approval.

The responsible official for implementing these recommendations is the Accounting Operations Center, Financial and Accounting Support Team Leader.

In regards to the recommendation for NPS to establish policies and procedures for conducting periodic condition assessment surveys, an action plan has been submitted by the Maintenance Management Office in response to Audit Report No. 99-I-959.

C. Bruce Sheaffer

STATUS OF AUDIT REPORT RECOMMENDATIONS

| Findings/Recommendation Reference | Status | Action Required |
|--------------------------------------|----------------------------|--|
| A.1 and B.1 | Resolved; not implemented. | No further response to the Office of Inspector General is required. The recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The target dates and titles of the officials responsible for implementation should be provided to the Office of Financial Management. |

Photo credits:

All photos belong to the National Park Service with the following exceptions: page 3, Little Rock Central High School courtesy Little Rock Central High School Museum and Visitor Center; page 22, Star-Spangled Banner ceremony courtesy Smithsonian Institution, Hugh Talman. Special acknowledgements to Rosa Wilson, Mike Booher, Tim Campbell, David Harrington, and Kathy Poole.

Fiscal Year 1999

Accountability Report



**United States Department of the Interior
National Park Service**
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